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**Audit West**

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# **Internal Audit Report**

**Confidential**

# **Pensions Governance**

**December 2017**

## Executive Summary

### Audit Opinion:

Assurance Rating	Opinion
Level 5	The systems of internal control are excellent with a number of strengths and reasonable assurance can be provided over all the areas detailed in the Assurance Summary
Level 4	<b>The systems of internal control are good and reasonable assurance can be provided. Only minor weaknesses have been identified over the areas detailed in the Assurance Summary</b>
Level 3	The systems of internal control are satisfactory and reasonable assurance can be provided. However there are a number of areas detailed in the Assurance Summary which require improvement and specific recommendations are detailed in the Action Plan
Level 2	The systems of internal controls are weak and reasonable assurance could not be provided over a number of areas detailed in the Assurance Summary. Prompt action is necessary to improve the current situation and reduce the risk exposure
Level 1	The systems of internal controls are poor and there are fundamental weaknesses in the areas detailed in the Assurance Summary. Urgent action is necessary to reduce the high levels of risk exposure and the issues will be escalated to your Director and the Audit Committee

### Assurance Summary:

Assessment	Key Control Objectives
Excellent	Pension Board members are conversant with Pension Scheme legislation and standards.
Excellent	Pension Board and Investment Panel members do not have any conflicts of interest. The Board has equal representation from both employers and members.
Excellent	Information about the Pension Board is accessible and up-to-date.
Good	There is an adequate internal control framework in place
Excellent	Complete and accurate scheme records are kept.
Excellent	Contributions are maintained in line with scheme regulations.
Good	Adequate information about benefits and scheme administration is provided to scheme members and others.
Good	There are robust internal dispute resolution procedures in place.
Excellent	Breaches of the law are effectively reported.
Excellent	Areas of non-compliance identified previously have been promptly resolved.

## Detailed Report

### Opinion:

Internal Audit has undertaken a review of the risks and controls related to Pensions Governance and assessed the framework of internal control at 'Level 4'. A total of 3 audit recommendations are detailed in the Action Plan.

### Scope and Objectives:

The scope and objectives of our audit were set out in the Audit Brief and a summary of our opinion against each of the specific areas reviewed has been detailed in the Assurance Summary section above.

### Background

The Avon Pension Fund has a team of around 40 staff that are responsible for the administration and safeguarding of the Fund.

According to the Pension Fund Performance Guide 2017, the following figures relating to the APF were reported as at 31/03/16:

- Members - 37,899
- Pensioners - 28,079
- Deferred pensioners - 40,711
- Net assets - £3,737m

There are 392 employers within the Fund.

To assist in the regulation of Pension Funds and to ensure it meets its own statutory obligations, The Pension Regulator's (TPR) Code of Practice 14 – 'Governance and Administration of Public Service Pension Schemes' was Introduced in 2015.

### Context & Audit Comment:

The current audit has been conducted as part of the 2017-18 Audit Plan and has sought to confirm that the key requirements of TPR Code of Practice 14 are being met on an ongoing basis by the Avon Pension Fund (APF).

In order to arrive at our conclusions, we have considered the previous audit report issued in February 2017, have met with officers from the member and employer services teams to discuss processes and have reviewed a selection of supporting evidence for the processes concerned.

Our overall view is that the Pension Fund team maintain a good awareness of the requirements of the Code and actively work to ensure that compliance is maintained. Good practice was apparent in a number of areas and the issues identified within this report do not include any matters considered to constitute a significant risk to the effective operation of the fund.

## Internal Audit Report – Pensions Governance

### Audit Summary Findings

#### **We identified the following strengths:**

All members of the Pension Board have now completed the mandatory training requirements necessary to demonstrate a sufficient degree of knowledge relevant to the role.

All members of the Pension Board have registered a declaration of interests and this is publicly available through the 'modern gov' area of the Authority website.

Information regarding the Pension Board has been made freely available through the APF website and 'modern gov' section of the Local Authority website, including membership details, the terms of reference and copies of minutes and reports.

There are good systems of internal control which include a risk management process and internal monitoring of compliance with the Code using a bespoke TPR spreadsheet.

Risk registers are updated regularly, discussed at Senior Management Team meetings and are a standing agenda item for the Pension Committee and Pension Board.

The Scheme actively engages with employers on data quality issues and promotes better data quality by providing training/raising awareness as well as the use of fines and Data Improvement Plans where necessary.

Member information such as Annual Benefit Statements are provided to members in a timely way.

An Internal Dispute Resolutions Policy (IDRP) has been formally approved detailing the procedure for dealing with disagreements.

A documented procedure is in place covering breaches of the code and any such breaches, whether by employers or the Fund itself, are identified, recorded assessed and remedial actions taken.

#### **We identified the following weaknesses:**

Issues regarding the transparency of declarations of interest for the Investment Panel were noted, in particular the failure to consistently publish declarations on 'modern gov'. These are being addressed and do not impact directly on compliance with the Code so no formal recommendation has been made.

Supporting records such as risk registers and the breaches control sheet had not always been completed accurately or fully. However we note that the errors / omissions were not significant in nature.

The way in which 'acknowledgements' in respect of formal disputes are handled is not always in line with procedures.

Communications with members had not always been in strict compliance with the requirements of the Code.

## Internal Audit Report – Pensions Governance

### **Audit & Risk Personnel:**

Lead Auditor: Gary Spratley

### **Acknowledgements:**

Sincere thanks to Geoff Cleak, Pensions Manager and members of the Pensions team for their help and assistance provided throughout the Audit review.

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**ACTION PLAN**

<b>MEDIUM RISK EXPOSURE</b>				
	<b>Weakness Found</b>	<b>Implication or Potential Risk</b>	<b>Recommendation(s)</b>	<b>Responsible Officer Management Comments Implementation Date</b>
<b>M1</b>	<p><b><u>Supporting Documentation</u></b></p> <p>The quality and completeness of supporting records held by the Pensions team and which demonstrate compliance with the Code, could be improved in some instances. We noted that:</p> <p>Risk Registers did not always accurately state the prior period risk levels.</p> <p>The Breaches Control Spreadsheet has a number of useful columns which are not always utilised, including TPR Notification RAG; Material Significance Y/N.</p>	<p>Inability to demonstrate that internal control processes are fully robust and that consideration has been given to the materiality of breaches in each case.</p>	<p>Supporting records such as risk registers and the breaches log should be fully and accurately completed in all instances.</p>	<p>An oversight had occurred during the review and completion of the previous Risk Register whereby the previous period values had not been updated.</p> <p>An independent review/check of future updates by senior management will occur prior to publication.</p> <p>Implemented January 2018</p> <p>Column completion and/or Hyperlinks to supporting data from the control spreadsheet will be utilised.</p> <p>Implementation by 1<sup>st</sup> March 2018</p>

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<b>MEDIUM RISK EXPOSURE</b>				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
<b>M2</b>	<p><b><u>Issues Dispute Resolution</u></b></p> <p>We reviewed the Issues Dispute Resolution Process and supporting records and made the following observations as at the time of testing:</p> <p>The procedure allows two months for an 'acknowledgement' to be issued, which seems excessive;</p> <p>The 'register' indicates that acknowledgements should be sent out within one week, which is in contrast to the timescales within the procedure;</p> <p>The 'register' indicates that no acknowledgement/response had been issued in respect of the stage 2 complaint from LL received on 12/09/17 or in respect of the stage 1 complaint from MB received on 31/10/17.</p>	<p>Reduced levels of customer satisfaction along with potential damage to the funds reputation.</p>	<p>Consideration should be given to reducing the 'acknowledgement' time as specified in the IDRP.</p> <p>Officers should also ensure that acknowledgements are issued promptly and that this date is recorded within the IDRP log.</p>	<p>A section of the original policy was confusing in that it reflected dates for acknowledging IDR application that referred to the review date completion.</p> <p>An amendment to the IDR acknowledgement section has been re-drafted and acceptable to IA.</p> <p>Managers are aware of the need to streamline the process of issuing acknowledgements and recording actions on the IDR log.</p> <p>Implementation by 1<sup>st</sup> March 2018</p> <p>All entries are now up to date on the IDR log</p>

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MEDIUM RISK EXPOSURE				
	Weakness Found	Implication or Potential Risk	Recommendation(s)	Responsible Officer Management Comments Implementation Date
<b>M3</b>	<p><b><u>Communications With Members</u></b></p> <p>Regulation 197 requires that responses to members in respect of requests for information include 'confirmation that members may request further information'. We reviewed emailed response to a member in respect of an enquiry and found that this or similar wording had not been included.</p>	<p>Minor breach of the Code which could reduce member satisfaction levels.</p>	<p>A standard form of words should be introduced and used in all relevant communications with members.</p>	<p>Whilst suitable wording is already in place on standard generated correspondence there is not a consistent approach in bespoke or email communications.</p> <p>A standard form of words will be developed for use across all communication platforms</p> <p>Implementation by 1<sup>st</sup> April 2018</p>